

# HOUSE BILL REPORT

## HB 2384

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### As Reported by House Committee On: Finance

**Title:** An act relating to the property tax exemption for nonprofit organizations providing rental housing or mobile home park spaces to qualifying households.

**Brief Description:** Concerning the property tax exemption for nonprofit organizations providing rental housing or mobile home park spaces to qualifying households.

**Sponsors:** Representatives Doglio, Ramel, Tarleton, Macri, Kloba and Gregerson.

#### **Brief History:**

##### **Committee Activity:**

Finance: 1/21/20, 2/10/20 [DPS].

#### **Brief Summary of Substitute Bill**

- Allows for the continuation of the exemption, for facilities of all sizes, in cases where the income of a "qualifying household" rises above the qualifying income threshold, but remains at or below 80 percent of median income for the county.
- Requires nonprofits receiving the exemption to recertify their exempt status every three years instead of annual recertification.
- Beginning July 1, 2021, expands the definition of "qualifying households" to include those whose income is at or below 60 percent of median income for the county in which the rental housing is located.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Orwall, Springer, Stokesbary, Vick and Wylie.

**Staff:** Nick Tucker (786-7383).

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

## **Background:**

### Property Tax.

All property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The county assessor determines assessed value for each property and calculates property taxes. The property tax bill for an individual property is determined by multiplying the assessed value of the property by the tax rate for each taxing district in which the property is located. The aggregate of all regular tax levies upon real and personal property by the state and all taxing districts may not exceed 1 percent of the true and fair value of the property. In addition, the aggregate regular levies of junior taxing districts and senior taxing districts, other than the state, may not exceed \$5.90 per \$1,000 of assessed valuation.

Property Tax Exemption for Nonprofits Providing Housing for Very Low-Income Households. Property tax exemptions are currently made available to qualifying organizations, including schools, churches, nonprofit hospitals, nursing homes, museums, public meeting halls, and others.

Property that is owned or used by a nonprofit to provide rental housing for very low-income households or to provide space for the placement of a mobile home in a mobile home park is exempt from property taxation if:

1. the benefit of the property tax exemption inures to the nonprofit;
2. at least 75 percent of the occupied dwelling units are occupied by a very low-income household; and
3. the rental housing was insured, financed, or assisted in whole or in part by a federal or state housing program, an affordable housing levy, or state-authorized affordable housing surcharges.

If less than 75 percent of dwelling units are occupied by very low-income households, the property is eligible for a partial tax exemption. The amount of the exemption is equal to the assessed value of the property reasonably necessary to provide the housing multiplied by the percentage of units occupied by a very low-income household.

For facilities with 10 or fewer units or lots, in cases where the income of a very low-income household rises above 50 percent of median income, but remains at or below 80 percent of median income, the exemption will continue as long as the housing continues to meet other certification requirements.

A very low-income household is defined as a single person, family, or unrelated persons living together whose income is at or below 50 percent of the median county income, adjusted for family size, as determined by the federal Department of Housing and Urban Development.

### Tax Preferences.

All new tax preference legislation is required to include a tax preference performance statement. The performance statement must clearly specify the public policy objectives of the tax preference and the specific metrics and data that will be used by the Joint Legislative Audit and Review Committee (JLARC) to evaluate the efficacy of the tax preference. In

addition, an automatic 10-year expiration date is applied to new tax preferences if an alternate expiration date is not provided in the new tax preference legislation.

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**Summary of Substitute Bill:**

Eligible households are referred to as "qualifying households."

For facilities of any size, if the income of a qualifying household rises above 60 percent of the median income, but remains at or below 80 percent, the exemption will continue so long as the housing continues to meet certification requirements.

Nonprofits receiving the exemption are required to recertify their exempt status on or before March 31 of every third year following the initial qualification for the exemption.

Beginning July 1, 2021, the maximum income to be considered a "qualifying household" is increased to 60 percent of the median income, adjusted for family size, as most recently determined by the federal Department of Housing and Urban Development for the county in which the rental housing is located.

**Substitute Bill Compared to Original Bill:**

The substitute bill extends until July 1, 2021, the change in the definition of a "qualifying household" to increase the income threshold to be at or below 60 percent of median income.

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**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note requested on February 10, 2020.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) This bill removes expenses and barriers for nonprofit providers of affordable housing. Nonprofits do a large share of the work related to providing affordable housing and related services. Nonprofits providing affordable housing rely on this property tax exemption to keep rents low and make their business model work.

When individuals move into affordable housing, they experience greater stability and are able to get a job. As a result, their income begins to rise and then the nonprofit must pay property tax on the property. By increasing the income threshold, the bill allows incomes to rise without penalizing the nonprofit. The bill also expands the safe harbor for income increases to properties of all sizes, which addresses this issue. Without a safe harbor the exemption

creates a perverse incentive by penalizing those properties where the tenants' incomes begin to rise.

This tax exemption was first created in 1999 and the nature of nonprofit affordable housing has changed over the years. The safe harbor in the underlying statute is only for smaller properties because that was the nature of affordable housing at the time.

(Opposed) None.

**Persons Testifying:** Representative Doglio, prime sponsor; Michele Thomas, Washington Low Income Housing Alliance; Trudy Soucoup, Homes First; Bill Rumpf, Mercy Housing North West; Paul Purcell, Affordable Housing Advisory Board; and Lisa Vatske, Washington State Housing Finance Commission.

**Persons Signed In To Testify But Not Testifying:** None.